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TERRORIST FINANCING RISKS IN THE NON-PROFIT ORGANIZATION SECTOR

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1. DEFINITIONS

Anti-Money Laundering, Combatting the Financing of Terrorism and Proliferation framework (AML/CFT/CPF): Refers to the national (or international) framework which combats and prevents money laundering, terrorism and proliferation financing activities;

Money laundering (ML): Generally, refers to the act of disguising the true source of proceeds generated from unlawful activities and presenting such in the financial system as sourced from legitimate activities. However, in terms of the Prevention of Organized Crime Act, 2004, as amended (POCA), the definition of ML is broad enough to include engagement, acquisition and concealment of proceeds of crime whether directly or indirectly;

Proliferation financing (PF): “the act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual-use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations”¹;

Terrorist financing (TF): includes “acts which are aimed at directly or indirectly providing or collecting funds with the intention that such funds should be used, or with the knowledge that such funds are to be used, in full or in part, to carry out any act of terrorism as defined in the Organization for African Unity (OAU) Convention on the Prevention and Combating of Terrorism of 1999, irrespective of whether or not the funds are used for such purpose or to carry out such acts”;

Law Enforcement Authorities (LEAs): Refers to law enforcement bodies like the Namibian Police;

Legal Persons (LP): This refers to any entities other than natural persons that can establish a permanent customer relationship with a financial institution or otherwise own property. These can include companies, bodies corporate, foundations, partnerships, associations and other similar entities;

Mutual Evaluation (ME): refers to the Mutual Evaluation Report of Namibia, carried out by ESAAMLG with the report being adopted in September 2022; and

¹ FATF Recommendation 7

Vulnerabilities: When used in a risk assessment, this term comprises those weaknesses that can be exploited by the threat or that may support or facilitate its activities.

2. INTRODUCTION

This report serves to identify and highlight threats and vulnerabilities of Money Laundering, Terrorism and Proliferation Financing (ML/TF/PF) within the Non-Profit Organisation (NPO) sector. Equally, the report contributes to the emphasis on Specified NPOs which might be most vulnerable to TF abuse. It is hoped that the observations herein can aid Specified NPOs and other sectors in implementing relevant preventative measures and place competent authorities and law enforcement agencies in positions to better identify, investigate and combat TF activities within the various sectors, as per FATF Recommendation 8, amongst other legal instruments.

The 2023 National Risk Assessment (NRA) update (to the 2020 NRA) indicates that Close Corporations (CCs) are most vulnerable to ML and TF abuse. The use of CCs to advance financial crimes is common in Namibia. This trend is evident in this report, with regard to the overwhelming findings which suggest that CCs as the most preferred vehicles employed in the advancement of TF (based on the few cases at hand). The various risk assessments over the years have also found that Faith Based Organisations (FBOs) in general and in particular those associated with Islamic extremism present the highest risk of potential TF.

This report shows that although the FIC has received many reports from the sectors suggesting potential TF, many such reports were deemed false positives after FIC investigations and Namibian Police (NamPol) confirmations. Overall, the FIC has only escalated two intelligence reports to LEAs that had indications of potential TF. These are the two referrals that contributed to known potential TF cases in Namibia. The TF-related information herein should thus be considered within this context. This report equally obtained information from NamPol on such TF cases investigated and such are duly considered herein.

Note that the names of subjects herein have been changed for obvious reasons.

3. OBJECTIVES OF THIS REPORT

The objectives of this typology report are to:

- a. identify specific types of transactions in which NPOs may have been knowingly or unknowingly involved in TF;
- b. identify vulnerable areas within different types of NPOs' frameworks that may need improvement;

- c. rank the products and services in terms of their vulnerability to TF risks;
- d. contribute to grounds that inform FIA Compliance Supervision and Monitoring activities in terms of the risk-based approach;
- e. highlight red flags or indicators that may assist in combatting TF threats; and
- f. enhance understanding of the *modus operandi* employed by perpetrators in the sector.

3.1 TF RELATED FINDINGS: MUTUAL EVALUATION

The report also responds to key observations in Namibia’s Mutual Evaluation Report (MER) adopted in September 2022, particularly on Immediate Outcomes (IOs) 9 and 10. The MER, amongst others, raised the following:

- a. **TF cases are not proactively/routinely identified and investigated:** There are no attempts to do such as LEAs and the FIC appears to not have measures in place to readily identify TF threats proactively. Authorities appear to only wait for reports on potential TF activities and react to such;
- b. **Limited TF knowledge:** The knowledge of terrorism is present among different LEAs but the understanding of TF in the country is not well established (save for the NCIS and the FIC) given that different LEAs are unable to identify TF and investigate TF activities even in cases where it was evident that there are potential TF activities²;

The below, as noted from the MER, partly explains why LEAs are said to be understaffed to duly combat TF:

Inadequate capacity: *The authorities mandated to investigate and prosecute TF appears to have an inadequate ability to identify and investigate TF cases even in clear instances where TF is manifested. The AML/CFT Division under Namibia’s CID is currently understaffed with only one officer, the other having been transferred. This officer has undergone general criminal investigation training but no specialised training on TF. Therefore, the limited understanding of TF manifestations by the LEAs, except for NCIS and FIC, owing to severe resource constraints including trained staff hampers effective identification and investigation*

² At the time of the ME, the FIC had disseminated 2 cases relating to terrorism and terrorism financing which resulted into LEAs initiating TF inquiry in 2017. However, this case proceeded to prosecution but was withdrawn due to lack of sufficient evidence. Other 2 potential TF cases that LEAs inquired into arose from intelligence reports and through INTERPOL.

of potential TF incidences specifically on the financial aspects. This is the underlying reason for Namibia's inability to proactively identify, investigate and prosecute TF cases;

The above consideration greatly reduces the combatting ability and enhances the overall national TF risk level, as seen in the 2023 NRA update.

- c. **Poor focus on TF:** TF investigation is not integrated and used to support the National CT Strategy. The NCIS is the custodian of Namibia's CT Strategy. However, the Strategy does not have dedicated pillars to deal with TF matters. Its primary focus is the offense of terrorism, with a very short and limited position on TF. This perhaps sums up Namibia's prioritization as authorities did not conduct proper TF investigations in any of these cases. From the four cases, the authorities pursued only three cases for disruption purposes. TF investigations are also hampered by deficiencies identified in Namibia's poor compliance with FATF Recommendation 5; and

- d. **Misaligned TF risk:** Namibia's measures on TF and NPOs are inconsistent with the TF risk profile of the country. Though the NRA rates overall TF risk in Namibia low, the measures described by the NCIS discussed under IO9, seem to indicate some of the TF risks that Namibia might be exposed to. Additionally, some of the measures taken such as monitoring of movement of persons from some of the categorized jurisdictions, seem to show a general implementation of measures related to TF. As discussed under IO.1, apart from NCIS and FIC, the LEAs did not appear to have an adequate understanding of TF risks. Therefore, the assessors were of the view that the measures being taken are not consistent with the TF risk profile of Namibia. The inconsistent data relating to the identification and investigation of TF cases also discounts any measures that the country applies to mitigate TF risks.

4. METHODOLOGY

The FIC analysed relevant data and various reports at its disposal to understand potential methodologies, trends, typologies and other related red flags associated with the NPO sector which potentially leads to TF activities. The information contained in this report was derived from STRs/SARs data filed with the FIC by various reporting institutions. Equally, information from NamPol's investigation of the few TF cases has also been obtained and incorporated herein to add value to FIC observations. Namibia has only had about 2 potential TF cases investigated by LEAs.

Such cases have been sanitized and included herein. Such 2 cases are related to one subject who has been monitored by NamPol for several years since the risk emerged.

Specifically, the sources of data and information analysed primarily include:

- i. TF cases as investigated by LEAs;
- ii. Sanitised intelligence emanating from reports and closed databases;
- iii. Competent authorities' investigation outcomes; and
- iv. Open-source research.

Such data was analysed and the information from such is summarized herein.

5. TF CASES INVESTIGATED BY NAMIBIAN POLICE

The Namibian Police has Mr-JJ as a potential subject of terrorist acts and terrorist funding. The profiling of the subject started in 2012 and the initial case was registered in March 2016. The subject case docket bearing Windhoek CRXXXX was registered for contravention of section 2(1) & (2)- of the Prevention and Combating of Terrorists and Proliferation Activities Act, Act No. 4 of 2014. Further, such case docket is under investigation and the subject has not yet been charged.

It was then established that the subject has been sending funds to individuals in foreign countries that are considered to be high risk in terms of terrorist activities through various foreign money exchange entities. With the information collected, it was discovered that the subject has been using Western Union and Money Gram via ADLA-A, ADLA-B, ADLA-C, and ADLA-D to send and received the money. It is further confirmed that the subject sent and received money from countries such as Country-D, Country-T, Country-M, and Country-F through the same entities. Although the subject was operating in small businesses such as: car washing and dealing in hand second-hand used car sales, as a source of income, this could not sustain him to frequently send money out of the country.

It was also established that the subject is currently venturing in the charcoal industry operating under two companies in the Grootfontein district as follows:

1. Company: Close Corporation-XX1

- a. Mr-JJ (5%): Namibian national;
- b. Mr-IM (40%): Country-K national;
- c. Mr-Fx (30%): with dual citizenship of Country-S1 and Country-S2; and

d. Mr-HJ (25%): Country-S.

2. Close Corperation-XX2

a. Mr-JJ (6%); and

b. Mr-HAA (94%): Country-KK national.

Thus far, the subject is not arrested, nor interviewed in relation to the matter and the case is still under investigation. The above confirms the view that the subject is merely accorded insignificant shareholding or interest in the above mentioned businesses but he appears to be the main front or person who exercises the cross border remittances.

5.1 POTENTIAL TF RED FLAGS

- a. Potential indicators are that the above-mentioned entities in the name of the subject and other beneficiaries are exporting charcoal to foreign jurisdictions in the Middle East, but no payments are received in their local business accounts;
- b. As such it is suspected that the profit is channelled to fund possible terrorist activities elsewhere;
- c. The subject is religiously radicalised into the extremist ISLAMIC religion which is linked to ISIS;
- d. Funds may be generated through the exportation of charcoal, and with the available information from the banking institutions no indications of income could be traced;
- e. The subject has also been using ADLAs to send and receive money to and from various jurisdictions;
- f. The subject makes use of social media like Facebook and WhatsApp where he openly sympathising with and supports the activities of ISIS, for example by posting pictures; and
- g. To date, through investigations, it is confirmed that funds are raised under the pretext of the charcoal business.

The only countries to have been detected in the importation of charcoal from the subjects' business are Dubai and Saudi Arabia. The case is currently with the office of the Prosecutor General for judgment. Thus far, there are no unusual transactions involving NPOs.

6. SUMMARY OF STRs AND SARs RELATED TO TERRORISM FINANCING ACTIVITIES REPORTED TO FIC

It is essential for combatting agencies and authorities to fully understand the pressures and risks posed by terrorism and TF, in order to effectively prevent and duly investigate such offences.

This section provides an overview of STRs/cases related to possible TF risks/threats filed by various sectors and reporting institutions since the reporting obligation commenced in 2009 until 31 December 2022. Worth noting, when reports are received by the FIC, they are cleansed to determine each report’s prioritization level. This process usually results in the decision of whether such reports should be escalated for further investigation (case files opened), or regarded as low priority. In some cases, some reports are set aside when it is concluded that there may not be merits for further investigations. Further, this section presents the total number of reports escalated to cases associated with potential TF.

Though the FIC has received many reports from the sectors suggesting potential TF, many such reports were false positives. As mentioned above, the FIC has only escalated two intelligence reports to LEAs that had indications of potential TF. The STR-related information herein should thus be considered within this context.

Chart 1: Summary of potential TF STRs received per Sector

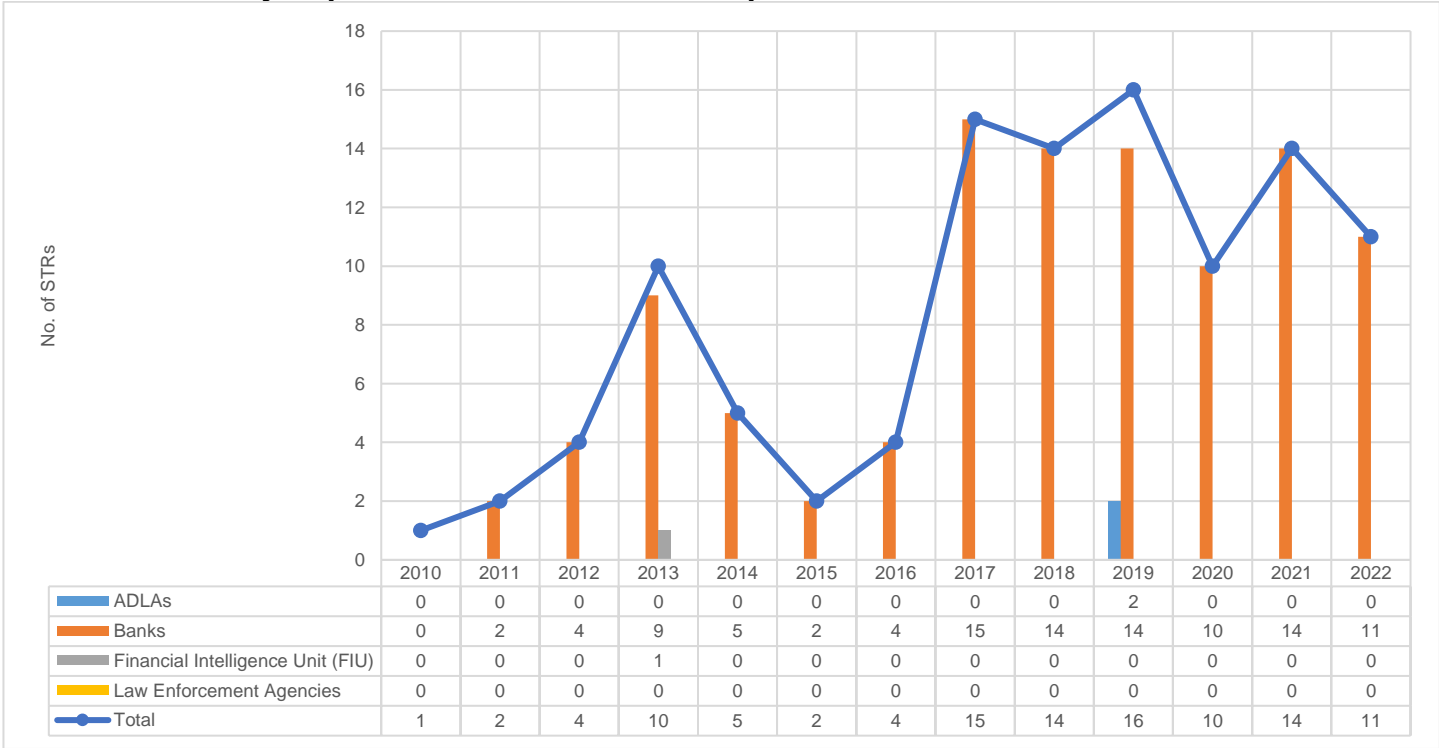
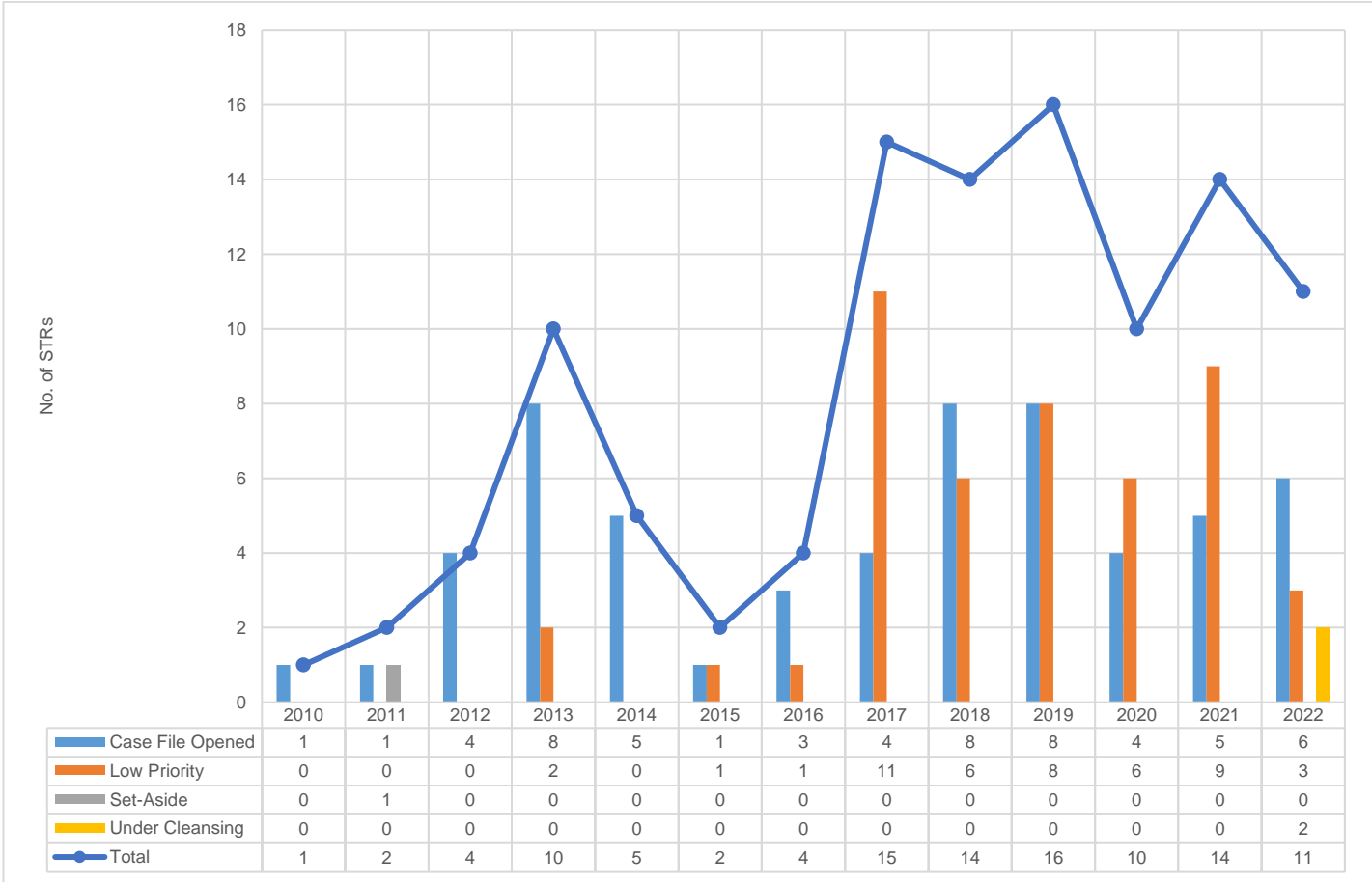


Chart 1 presents a summary of STRs filed by the sectors related to potential TF. The year 2019 saw the highest volume of reports related to potential TF offences with 16 STRs. It is worth noting that 96% of the reports originate from the banking sector. This reporting trend could be attributed to various factors, including the fact that the banks appear to have the most matured AML/CFT/CPF control systems. The ME, as per Immediate Outcome 4, found that TF is understood to some extent by FIs and to a negligible extent by Designated Non-Financial Businesses and Professions (DNFBPs). It can also be argued that banking services are generally exposed to a higher risk of abuse for financial crimes as almost all other sectors make use of the banking systems.

As mentioned above, note that many such potential TF reports were deemed false positives within the FIC and not escalated to Law Enforcement for further investigation. With those escalated to NamPol, almost all were deemed false positives for terrorism or TF and not investigated any further.

Chart 2: Classification of potential TF STRs received per Sector



Overall, the FIC observed that 54% were accorded “high priority” status and escalated for further analysis (case files opened) whilst 44% were categorized as ‘low priority’. Cases such as those

involving foreign individuals and entities who transferred funds to high-risk jurisdictions were considered as possible TF and naturally subjected to extensive analysis. The mere remittance to a high-risk jurisdiction appears to be the sole indicator of potential TF in these cases, without other additional indicators. Many a time, such reports resulted in actionable intelligence which was forwarded to Law Enforcement Agencies (LEAs). However, NamPol (AML & CFT Division Crime Investigation Directorate) investigations eventually confirmed that such escalated reports were false positives for terrorism or TF and were not investigated any further, with the exception of two cases.

On the other hand, only two SARs were reported related to potential TF offenses in the period under review. Such reports were filed in 2021 by Bank Windhoek Ltd and were categorized as ‘low priority’. It is common cause that beneficial owners who may advance TF will most likely use complex ownership structures that hide their identification or representation.

Chart 3: Summary of STRs received per Reporting Entity

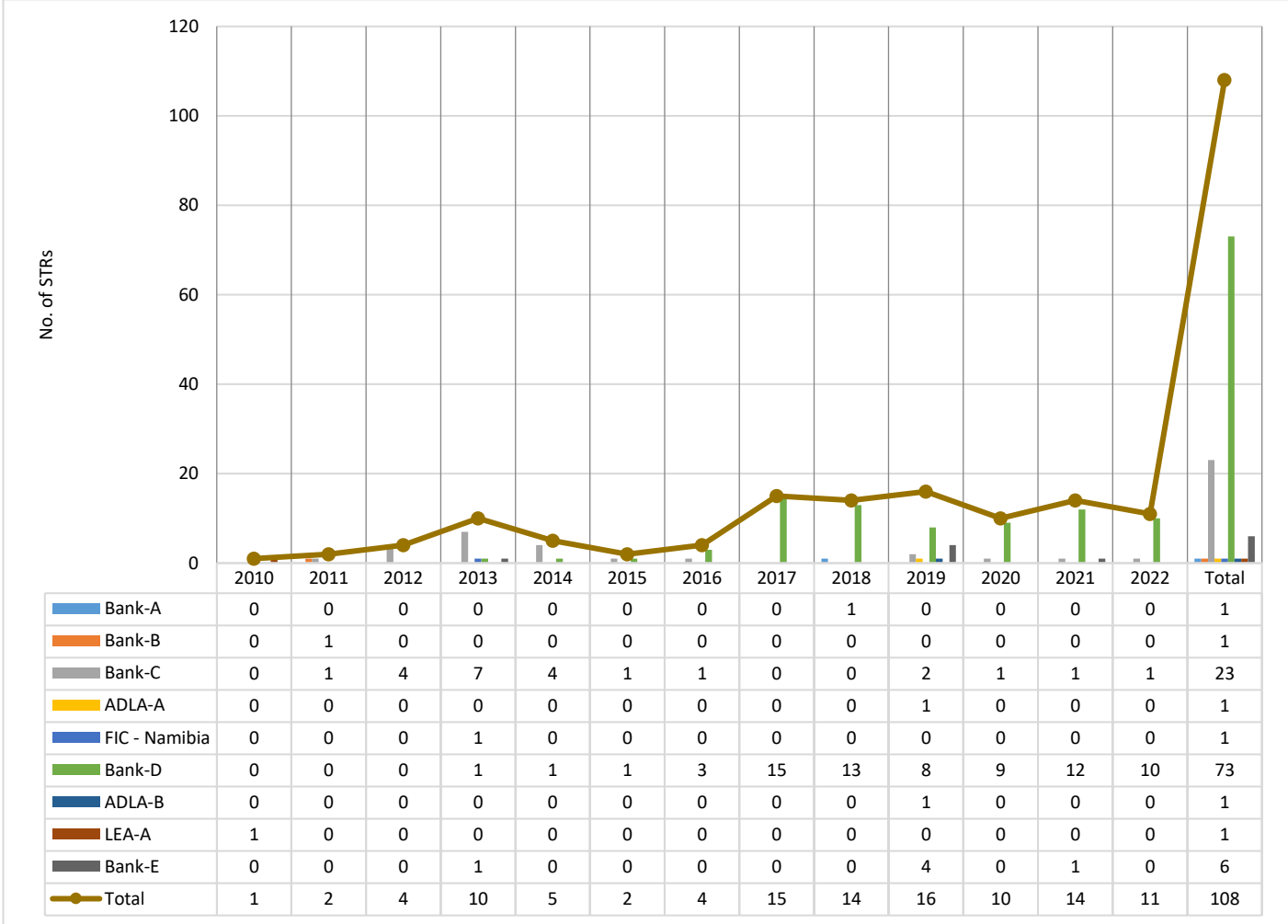


Chart 3 shows a summary of STRs related to potential TF offences reported by various reporting entities. Bank-D filed the highest volume of reports related to potential TF offences with 73 STRs. The records show that the high number of reports received from Bank-D could be attributed to various factors, including the fact that they appear to be the largest financial institution in terms of volumes of clients. Equally, through such a larger client base, Bank-D's measures aimed at detecting and reporting suspicions can be said to be aligned to the bank's risk exposure. This is based on volumes of reports and bank size. It does not replace any observations in the relevant supervisory observations around compliance

The following speaks to components of TF related to raising and moving funds, as highlighted by the reporting entities, amongst others:

Sources/Raising of funds:

- ✚ Subjects and entities observed suspicious transactions in their bank accounts. Accounts have received funds through cash deposits and from foreign jurisdictions via EFTs;
- ✚ Significant foreign cash deposits have been paid into Non-profit Organisation (NPO) accounts described as "donations". Such deposits have been made by individuals from high-risk jurisdictions. The account is also credited with inward swifts from various individuals who appear to be from higher-risk TF jurisdictions; and
- ✚ In most cases, the source of funds received into accounts was not known and not in line with the client's account profile.

Moving of funds:

- ✚ Funds are subsequently disbursed via cross-border ATM cash withdrawals and international purchases; and
- ✚ The involved entities and subjects are Close Corporations (CCs), NPOs and natural persons.

6.1. SAMPLED CASE STUDIES (TF CASES FROM THE FIC DOMAIN)

Mr-X a Country-L national, married to a Namibian citizen (Ms-M) has reportedly been residing in Namibia since 2006. He is the beneficial owner of at least six business entities registered in Namibia,

being: Close Corporation CC-A, Company (PTY) Ltd-A, Close Corporation CC-B, Close Corporation CC-C, Close Corporation CC-D and Close Corporation CC-E. The subject and his entities have been reported in various reports to the FIC on suspicion of possibly advancing TF. Information provided by the LEAs alleged that the subject may be linked to the terrorist group *Hezbollah*. Below is a case study on the said subject with potential indicators of TF.

Case Study: A

The reported subject, Mr-Y is a Country-L national, suspected of supporting, aiding or associating with potential terrorist groups. The subject was reported due to withdrawals done in Country-L from his business bank account held with Bank-D in the name of Close Corporation CC-E.

The funds received in the subject's bank account are purported to be from business activities, however, the nature thereof cannot be ascertained. The analysis confirmed that two visa electronic cards are linked to the account of the subject. The justification made by the subject in respect of the additional card is that his family in Country-L should have access to the funds in the account for their upkeep. It is against this background that funds are withdrawn from the account at different ATMs (Automated Teller Machines) in Country-L. All debit transactions are conducted in Country-L, and no debit transactions are conducted in Namibia, which cements the suspicion that both cards are used in Country-L.

Due to the above, the subject could expose Namibians to a TF vulnerability as making funds available in this manner presents a high risk of TF.

Open-source information suggests that Mr-Y has a connection with Hezbollah, a Country-L military group referred to by the west as a terrorist group. In 2011, the subject was also suspected of human trafficking as he sent six Namibian males to Country-L who underwent labour exploitation at farm-Txx at the outskirts of Town-T of Country-B and Country-L.

Intelligence on the matter was shared with the NCIS and NamPol (AML & CFT Division Crime Investigation Directorate), however, investigations eventually confirmed that such escalated report is false positives for terrorism or TF and did not warrant them to pursue the matter further.

Case Study: B

Another case study is again of Mr-Y and his six entities indicated in case study A.

The analysis conducted confirmed that the subject has channeled through his personal and business account a total of NAD 7 million to various recipients in Country-B and Country-L. The relationship between the subject and various recipients in the two countries could not be established.

The subject transferred large amounts of money to recipients in various countries. He further, indicated to be dealing in second-hand vehicles and claims that funds channeled to these destinations are for payments for the purchase of vehicles.

The subject was also being investigated by the receiver of revenue (NamRA) for an amount of NAD 1 Million reportedly fraudulent funds paid from the receiver of revenue to him or his business, Close Corporation CC-B of which he is the sole owner. In addition to this amount, a total of NAD 1 Million was paid into the account of Company (PTY) Ltd-A also owned by the subject purportedly from NamRA.

The analysis conducted concluded that the account of the subject and that of the entities may be linked or associated with funds collected and movement relating to TF. The subject is making use of business accounts to collect and then channel funds to certain foreign individuals and businesses potentially associated with terrorist activity.

Except for one entity which is a Proprietary Limited Company, all his other businesses, especially the ones where suspicions were noted, are Close Corporations (CCs). This ties in with the 2023 National Risk Assessment update (to the 2020 NRA) which indicates that CCs are most vulnerable to ML and TF abuse. The various risk assessments have equally found that Faith Based Organisations (FBOs) in general present a higher risk for potential TF, with those associated with

Islamic extremism most vulnerable to TF risks. The subject in this matter could be bordering on associations with extremist Islamic ideologies.

Intelligence on the matter was shared with the NCIS and NamPol , however, investigations eventually confirmed that such escalated reports are false positives for terrorism or TF and did not warrant them to pursue the matter further.

Report Source Type	STR
Perpetrators Involved	Foreign (Lebanese) Individuals and locally registered Close Corporations
Involved sector	Banking and Motor Vehicle Dealerships
Key risk controls	Amongst others, failure to detect questionable bank transactional behavior which conflicted nature of supposed business activities.
Designated services	Personal and business bank accounts
Instruments used	EFTs, Companies, Close Corporations, and Individual banks accounts, etc.
Potential Predicate Offence	Possible Terrorist Financing, Tax Evasion, Human Trafficking and Capital Flight.
Red flags/Indicators	<ul style="list-style-type: none"> • <i>The subject reported on various reports to the FIC to be linked to a terrorist;</i> • <i>The transaction activity of the client is inconsistent based either on the client's usual pattern of activities, such as large cash payments, unexplained payments from a third party, or use of multiple or foreign accounts;</i> • <i>Structured foreign cash withdrawals from accounts;</i> • <i>Frequent transfers to high-risk jurisdictions;</i> • <i>The subject is implicated in other criminal cases; and</i> • <i>Frequent international ATM activity in high-risk jurisdictions; and</i> • <i>Faith Based Organisations (FBOs) in general and those associated with Islamic extremism present the highest risk of potential TF.</i>

Case Study: C

The FIC received a request for information on a certain subject from LEAs. The information requested was related to Mr-DD, a Namibian national, suspected of financing terrorism. The subject was suspected to have joined a Muslim guerrilla militant movement known as the Mujahideens abroad and was requesting friends and former colleagues to join the jihad. The FIC conducted a financial analysis on the Bank-D account held in the name of the involved subject. Analysis showed that for the period of 23 October 2010 to 15 May 2015, the subject was a student at WWT University in South Africa and was also for some periods employed at an entity named GHGH Limited. The analysis confirmed that the subject received a monthly salary ranging between NAD 3,000.00 and NAD 20,000.00 from such entity. Further, the analysis on the bank account confirmed that a certain lady (Ms-SS) has made regular cash deposits into the subject's bank account.

Between January 2014 and December 2014, the subject transferred an amount of NAD 40,000.00 to an account in favour of Sadaqa. It is alleged that Sadaqa is an Islamic term that means "voluntary charity"³. The analysis further revealed that the subject purchased an air ticket in February 2015. It is also alleged that the subject was destined for the vicinity of IISS in Country-TTk and surrounding areas. Subsequently, on 16th February 2015, an amount of NAD 25,000.00 was transferred from the Bank-D account held in the name of Mr-JN into the subject's bank account. The subject later made several cash withdrawals in Country-SAA and other structured foreign cash withdrawals in Country-TTk. This potentially represents the final stages of the subjects' journey from Namibia to Country-TTk and beyond, to join the Islamic Jihad.

Intelligence on the matter was shared with the Namibia NCIS and NamPol. It is further confirmed that the subject was reported killed abroad.

Report Source Type	RFI
Perpetrators Involved	Namibian National
Involved sector	Banking, NPO - charity (sadaqa)

³ Sadaqa is charity given voluntarily in order to please God. Sadaqa also describes a voluntary charitable act towards others, whether through generosity, love, compassion or faith.

Key risk controls	Amongst others, failure to detect questionable bank transactional behavior which conflicted nature of supposed activities.
Designated services	Bank accounts
Instruments used	EFTs, Point of Sale (PoS) and ATM.
Potential Predicate Offence	Possible Terrorist Financing and Capital Flight.
Red flags/Indicators	<ul style="list-style-type: none"> • <i>Subject reported to the FIC to be linked to terrorist groupings/activities;</i> • <i>The subject made cash withdrawals and electronic funds transfers after funds deposits;</i> • <i>The transaction activity of the client is inconsistent based either on the client's usual pattern of activities, such as large cash payments, unexplained payments from a third party, or use of multiple or foreign accounts;</i> • <i>Structured foreign cash withdrawals from the account;</i> • <i>Frequent international ATM activities in a high-risk jurisdiction; and</i> • <i>Faith-Based Organisations (FBOs) in general and those associated with Islamic extremism present the highest risk of potential TF.</i>

7. UNDERSTANDING NPOs

It has been anticipated that the NPOs at the highest risk of TF abuse internationally are charities. This is because charities are cash intensive, most operate with reduced governance structures, regularly transmit funds between jurisdictions and have historically operated under less formal regulatory scrutiny than formal profit entities. Such is therefore seen as an ideal vehicle in which to launder money or collect and transmit funds to finance terrorism activities.

According to the FATF, NPO refers to a legal person or arrangement or an organization that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of 'good works'. FATF Recommendation 8 provides the requirement to assess TF risks facing NPOs.

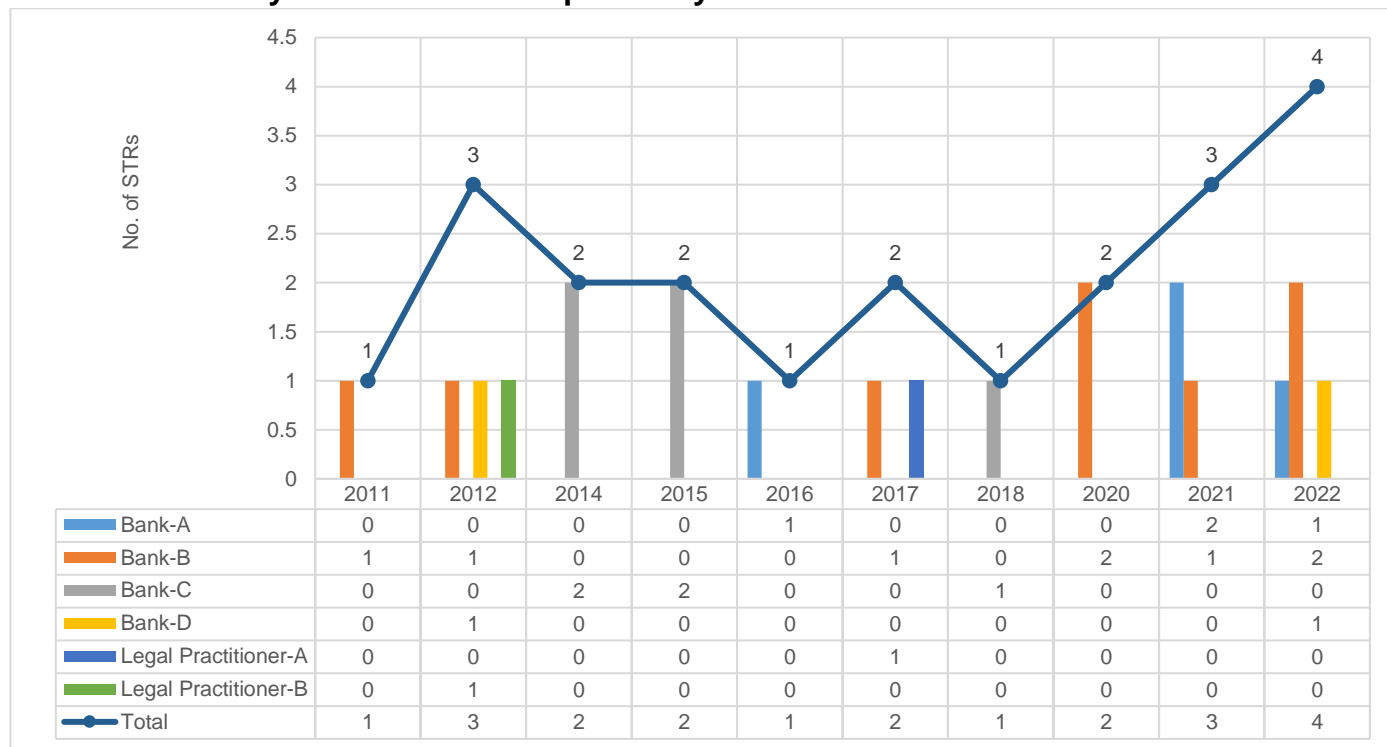
Importantly, it requires jurisdictions to undertake a domestic review of their NPO sector or have the capacity to obtain timely information on its activities, size and other relevant features. Such is required in order to identify the subset of NPOs that fall into the FATF definition. In doing so, jurisdictions are required to use all available sources of information to identify features and types of NPOs that, by

virtue of their activities or characteristics, are at risk of being misused for TF⁴. Owing to NPOs receiving significant funds from international stakeholders (cross-border funds remittances), NPOs are inherently vulnerable to advancing TF or being abused for ML purposes. The reduced governance structures in most NPOs further make them attractive to PF abuse.

7.1. SUMMARY OF REPORTS INVOLVING NPOs REPORTED TO FIC

This section presents a summary of STRs involving NPOs and the classification of such reports. It is worth noting that there are no SARs filed with the FIC that involves NPOs in the period under review.

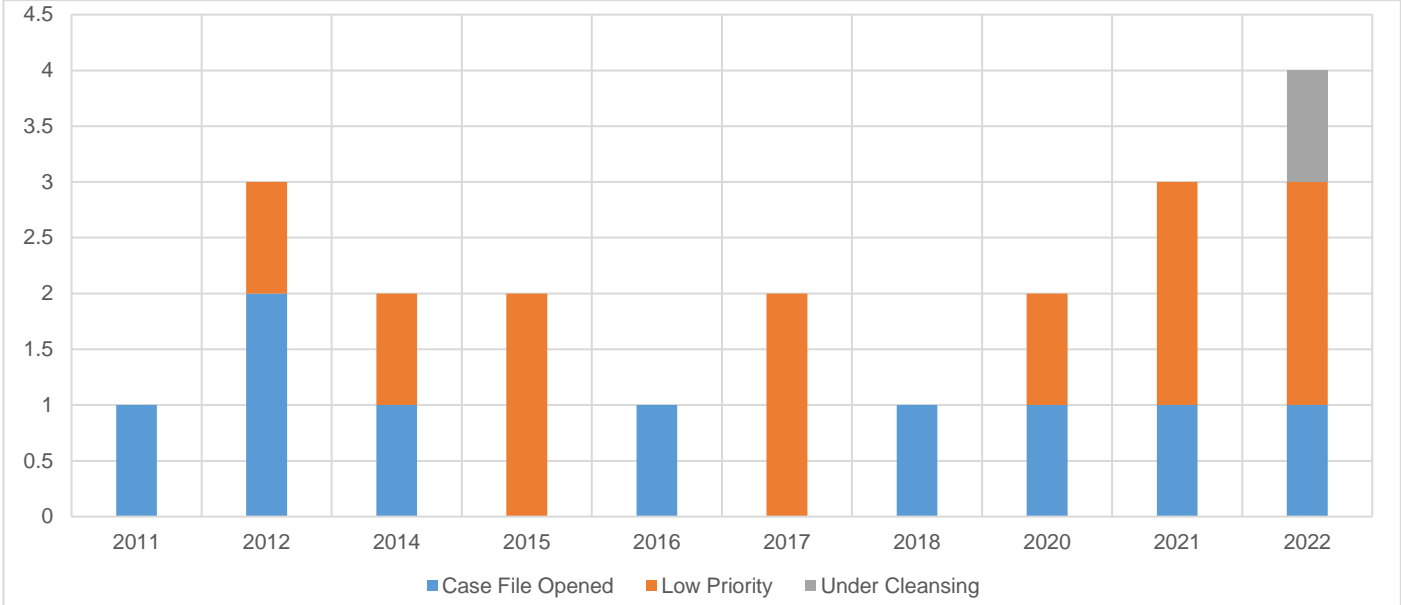
Chart 4: Summary of STRs received per Entity



The FIC received 21 STRs involving NPOs. Bank-B submitted 38% of these reports. Followed by Bank-C and then Bank-A with 24% and 19% of the total reports, respectively. The majority of the STRs relating to NPOs were filed in relation to potential ML predicate offenses.

⁴ FATF Report: Terrorist Financing Risk Assessment Guidance

Chart 5: Classification of STRs received involving NPOs



The chart above demonstrates how STRs involving NPOs were classified. Of the 21 STRs received, 52% were placed under low priority. Frequent cash deposits and transfers into the NPO’s bank accounts from high-risk jurisdictions are featured as the common reason for suspicion, in these STRs. Worth noting is that no TF-related case has been filed arising from or in relation to NPOs. All NPO-related STRs are only related to ML. It is however common cause that control weakness reflected in NPO services or payment channels including governance frameworks, etc., abused to advance ML can be just as easily abused to advance TF. For this reason, the observed control weaknesses on ML in NPOs cannot be ignored and discounted in combatting TF risks.

The chart above further suggests that 43% of reports were classified as ‘high priority’ and escalated for further analysis. These STRs resulted in actionable intelligence which was forwarded to the Namibia Police, Ministry of Finance (Receiver of Revenue) and the NCIS for further investigation of ML predicate offenses. Amongst others, funds misappropriation whereby account signatories are suspected of misusing the NPO’s funds for their own good featured as the primary reason in these cases.

Table 1: Classification of STRs by NPOs by names and amounts involved (NAD)

	Case File Opened	Low Priority	Under Cleansing
NPO-1	-	1,400,000.00	-
NPO-2	-	170,000.00	-

NPO-3	20,000,000.00	-	-
NPO-4	-	121,000.00	-
NPO-5	1,600,000.00	-	-
NPO-6	-	290,000.00	-
NPO-7	2,500,000.00	-	-
NPO-8	-	800,000.00	-
NPO-9	3,500,000.00	-	-
NPO-10	540,000.00	-	-
NPO-11	-	400,000.00	-
NPO-12	-	-	10,800,000.00
NPO-13	1,350,000.00	-	-
NPO-14	-	750,000.00	-
NPO-15	-	450,000.00	-
NPO-16	10,000,000.00	-	-
Total	39,490,000.00	4,381,000.00	10,800,000.00

Misappropriation of funds by account signatories featured as the primary reason in the STRs placed on high priority. On the other hand, frequent cash deposits and transfers into the NPO's bank accounts from high-risk jurisdictions featured as the common reason in the STRs that were placed under low priority. This suggests more needs to be done to understand if there are potential suspicions and not merely filing based on the country of origin of such funds. Overall, 17 NPOs were identified in the combined information from the STRs analysed.

7.2 VULNERABILITY TO MISUSE NPOs

Proving the internationally held view that NPOs are vulnerable to abuse seems relatively straightforward. Their vulnerability is related to a broad range of factors related to the sector's reputation, the areas in which NPOs operate and the nature of their organisational structure, governance arrangements and methods of financial management. Below are some of the vulnerabilities pertinent to the NPO sector:⁵

⁵ Money laundering and terrorism financing risks to Australian non-profit organisations

- a. **high levels of public trust:** NPOs are relatively easy to establish and highly diverse in nature. The sector has traditionally attracted less suspicion due to the altruistic nature of its operations;
- b. **global reach:** may have a global presence. NPOs could be situated in or operate within areas of conflict/terrorism and regularly depend on intermediary partners or local branches to deliver funds and services, sometimes without direct supervision or control;
- c. **cash intensive:** NPOs are usually cash intensive and might be constituted by complex global financial operations involving multiple donors and currencies;
- d. **minimal controls:** NPOs tend to minimise spending on strengthening internal controls and management due to limited financial resources and to maximise funds for their charitable projects; and
- e. **reduced regulatory compliance:** NPOs invest less in regulatory compliance practices and obligations relating to due diligence. This is often because the minimal resources prevent implementation or adherence to strict financial controls while generally, most countries, Namibia included, have reduced regulatory measures for NPOs. On occasion, in some organizations, there may be poor management of accounts and verification of legitimacy as well as the legality of recipient organizations and their use of donated funds may be overlooked.

8. COMMON INDICATORS OF TERRORISM FINANCING IN NPOs AND OTHER SECTORS

Certain red flags point to potential TF abuse. This section presents a summary of indicators that may signal the occurrence or presence of TF potential predicate offenses. Such indicators are observable events that point to the likelihood of specific activities occurring. When each indicator is viewed in isolation, it may not readily point to TF, but when viewed with other indicators and relevant factors, it may highlight potential TF. It is worth noting that these serve merely as a guide and therefore not exhaustive of all indicators:

Table 2: NPO-related potential indicators of TF
• The entity applies for tax-exempt status as a charity or NPO;
• Fundraises through personal correspondence, newsletters and via the organisation’s website;
• Open domestic bank account(s) into which proceeds and donations are deposited;
• Transfers of funds to overseas branches, diverting some (or all) of these funds for terrorist activities;

<ul style="list-style-type: none"> • Significant and unusual transactions involving NPOs, especially high-risk NPOs such as charities and FBOs;
<ul style="list-style-type: none"> • Payments by entities to NPOs that public officials are known to be associated with;
<ul style="list-style-type: none"> • Frequent cash deposits and transfers into the NPO's bank accounts from high-risk jurisdictions;
<ul style="list-style-type: none"> • Individuals and entities transfer funds to various high-risk jurisdictions, especially those known to have active terrorism/conflict;
<ul style="list-style-type: none"> • Client attempts to close NPO account(s) to avoid due diligence questioning by the banks/financial institutions;
<ul style="list-style-type: none"> • An entity that pays other firms to perform logistical roles in countries where there is a high degree of perceived terrorism and which they could perform themselves, in order to transfer the risk to the other firm or distance themselves from CDD;
<ul style="list-style-type: none"> • Entity, NPOs or persons that are closely aligned to or supporting radicalizations and extremism or terrorist organisations internationally;
<ul style="list-style-type: none"> • A pattern of sending or receiving international EFTs to or from foreign businesses that operate in a sector or industry unrelated to each other;
<ul style="list-style-type: none"> • The NPO or entity moves funds or other resources frequently to areas of conflict/active terrorism;
<ul style="list-style-type: none"> • Transactional patterns from NPO or entity accounts that are exclusively one-directional. e.g., the entity only sends but never receives EFTs, or vice versa;
<ul style="list-style-type: none"> • The NPO or entity has business activities or a business model that is outside the norm of its sector or conducts no business activities in Namibia. It may also be difficult to confirm the exact nature of the business's primary NPO objective, however, their account receives significant funds;
<ul style="list-style-type: none"> • Entity or NPO deals in cash or alternative remittance systems where no formal banking infrastructure exists; and
<ul style="list-style-type: none"> • Entity or NPO has extremely complicated financial records in which suspicious transactions are less easy to identify. It is also suspicious if the governance framework of an NPO is complex to enable the identification of those managing its affairs, its donors or recipients/beneficiaries.

8. KEY FINDINGS

STRs and SARs filed by the reporting institutions concerning potential TF have assisted the FIC and LEAs in pursuing and detecting criminals engaged in suspected TF and ML. Further, clients who are legal persons essentially present higher TF risks than natural persons when the ultimate beneficial owners in such legal persons cannot be readily and reliably established. CCs appear to be most prominent in this report, and this confirms findings in the 2023 NRA update on the vulnerabilities of various legal persons. Below are the key findings concerning TF risks and vulnerabilities within the NPO and other related sectors.

- a. 108 STRs involving potential TF were reported to the FIC. Importantly, 54 STRs were accorded “high priority” status and escalated for further analysis and investigation within the FIC. Many such potential TF reports were deemed false positives within the FIC and not

escalated to Law Enforcement for further investigation. With those escalated to NamPol, almost all were deemed false positives for terrorism or TF and not investigated any further;

- b. Only 2 SARs were reported relating to potential TF offenses;
- c. The information herein suggests banks, perhaps due to their cross-border remittance services, amongst others, are most vulnerable to TF-related threats. 96% of the potential TF reports originated from this sector. The banking sector has comparatively more matured AML/CFT/CPF control systems which naturally means banks can readily identify TF threats, compared to other sectors. Despite this, the huge volumes of clients and transactions in the sector escalate risks inherently as control frameworks in banks are under strain to effectively combat TF and other financial crimes;
- d. It is also worth noting that the study revealed that ADLAs appear to be most vulnerable to TF-related threats as demonstrated under section 5;
- e. It is understood that beneficial owners who may advance TF will most likely use complex ownership structures that hide their identification or representation. From the FIA compliance assessment activities conducted in the banking sector, the FIC observed that in most cases, beneficial owners' information was not adequately obtained when business relationships were established;
- f. From the 21 STRs received, 43% were classified as 'high priority' and escalated for further analysis;
- g. Amongst others, misappropriation of funds by account signatories in NPOs featured as the primary reason in these cases;
- h. All STRs involving NPOs were filed in relation to potential ML predicate offenses;
- i. No TF-related STR/case has been filed arising in relation to NPOs, arising from this intelligence information, cases within LEAs, hence, the study cannot confirm the link between NPOs and TF, at least domestically. Though all NPO-related STRs only suspected ML, it should be noted that control weaknesses of ML can equally be exploited to advance TF.

Globally, NPOs such as charities are abused to advance TF and this could happen domestically;

- j. Certain subjects (Namibians and foreign nationals) and entities have been reported in various reports to the FIC with the possibility that they may be advancing TF activities;
- k. To date, the Namibian Police have only one case related to the TF, which appears to have been reported or investigated twice. Such case docket is under investigation and the subject has not yet been charged; and
- l. The Namibian Police confirmed that there was no case opened with regard to the reports related to TF from the FIC, however, inquiries were made on such cases.

9. POSSIBLE RECOMMENDATIONS

- a. **Implement risk-based measures:** It is clear that countries are implementing measures to prevent sectors from being abused for TF. Nevertheless, it is significant for all to identify whether these measures are appropriate with the risks identified to target greater measures to those sectors exposed to higher risks, and not generate the unplanned effects of implementing excessive measures to sectors that are exposed to lower risks of being abused for TF;
- b. **Encouraging dialog with the sector:** The outreach and involvement of sectors, especially DNFBPs, in the risk identification and management process is very helpful to obtain all the information available and to develop strategies to mitigate and address these risks adequately;
- c. **International cooperation:** countries should encourage the strengthening of effective mechanisms to respond to requests for information related to TF. Developing effective collaboration between countries and sectors can help identify complementary measures that are relevant and adjusted to the needs of the sectors, but also relevant to prevent misuse for both TF and other crimes; and
- d. **Guidance on Targeted Financial Sanctions (TFS):** Sectors are encouraged to study Guidance Note 07 of 2023 on Targeted Financial Sanctions for guidance relating to

combatting TF, freezing without delay, prohibition and the relevant report types to file when suspecting TF, sanctions screening matches, etc.

10. CONCLUSION

Similar to other jurisdictions, Namibia has a significant number of unregistered NPOs engaged in various activities such as charitable, religious, cultural, educational, social or carrying out other types of good community works. However, there is no accurate information as to how many unregistered organizations engage in the said activities and represent themselves as NPOs, though the overwhelming majority (easily over 95%, as per FIC estimation) are known and registered with the FIC. NPOs with footprints in the financial sector or bank accounts are duly identified and registered with the FIC. Various self-regulatory bodies and government ministries have records of NPOs registered with them but there is minimal, if any, prudential supervision, which can be relied on to reduce potential TF risks. These registries and nationwide tours have helped the FIC identify the NPOs registered with the supervision and monitoring function.

The risk and vulnerability of the NPO sector are a product of factors related to organizational structure/governance, methods of operation, fund distribution networks and financial management practices. However, the ultimate risk and vulnerability lies in their social role and the inherent trust the sector holds within the community.

The study did not establish if all the NPOs are undertaking the customer due diligence (CDD) measures required by the FIC and have a clear understanding of information on TF risks and vulnerabilities within their sector. The 2020 NRA details such. The FIC's supervision function is currently updating the NPO's sectoral risk assessment while the 2023 NRA update will equally help yield more information on the NPO sector.

A lack of awareness and/or lack of education about TF risks and red flag indicators reduces the likelihood that NPOs would be in a position to protect their services from TF abuse. The Compliance Monitoring and Supervision Division must take effective measures to enhance report quality or value-adding STRs/SARs which can lead to effective investigations, prosecutions, asset forfeitures and asset/tax recoveries. It is within this spirit that this report is shared. Similarly, the Namibian Police are expected to note observations herein to help aid in combatting the investigating ion of TF.

This report or similar studies on TF risks and within the NPO sector will be updated periodically when the need arises.

A handwritten signature in black ink, appearing to read 'P.P. K. Barry', with a stylized flourish at the end.

Z. Barry
ACTING DIRECTOR: FINANCIAL INTELLIGENCE CENTRE

12. ANNEXURES

Annexure 1: Spontaneous Disclosures to LAEs

No.	Subject/Entity Name ⁶	Possible Predicate Offence	Amount Involved (NAD)	LEAs Conclusion
2011				
1	Removed	Possible Terrorism Financing	9,445,838.75	No Terrorism or TF found
2	Removed	Possible Terrorism Financing	29,656,198.54	No Terrorism or TF found
Total			39,102,037.29	
2012				
1	Removed	Possible Terrorism Financing	7,539,044.11	No Terrorism or TF found
Total			7,539,044.11	
2013				
1	Removed	Possible Security Threat	N/A	No Terrorism or TF found
2	Removed	Possible Security Threat	N/A	No Terrorism or TF found
3	Removed	Possible Terrorism Financing	3,032,483.04	No Terrorism or TF found
Total			3,032,483.04	
2014				
1	Removed	Possible Money Laundering & Terrorism Financing	2,000,000.00	No Terrorism or TF found
2	Removed	Possible Terrorism Financing	1,306,880.80	No Terrorism or TF found
3	Removed	Possible Money Laundering & Terrorism Financing	1,888,428.46	No Terrorism or TF found
4	Removed	Possible Terrorism Financing	676,528.75	No Terrorism or TF found
Total			5,871,838.01	
2015				
1	Removed	Possible Terrorism Financing	397,176.12	No Terrorism or TF found
2	Removed	Possible Terrorism Financing	267,121.86	No Terrorism or TF found
3	Removed	Possible Money Laundering & National Threat	747,543.35	No Terrorism or TF found
4	Removed	Possible Money Laundering & Terrorism Financing	696,517.25	No Terrorism or TF found
5	Removed	Possible Money Laundering & Terrorism Financing	2,830,000.00	No Terrorism or TF found
6	Removed	Possible Terrorism Financing	460 182.44	No Terrorism or TF found
7	Removed	Possible Proliferation Activities	3,586,271.15	No Terrorism or TF found

⁶ Names of subjects/entities herein have been removed for obvious reasons

8	Removed	Possible Proliferation Activities	13,000,000.00	No Terrorism or TF found
9	Removed	Possible Terrorism Financing	535,947.50	No Terrorism or TF found
10	Removed	Possible Terrorism Financing	1 943 819.43	No Terrorism or TF found
Total			22,060,577.23	

2016

1	Removed	Possible Terrorism Financing	0.00	No Terrorism or TF found
2	Removed	Possible Proliferation activities	3,305,792.00	No Terrorism or TF found
3	Removed	Possible Proliferation activities	21,000,000.00	No Terrorism or TF found
4	Removed	Possible Terrorism Financing	0.00	No Terrorism or TF found
5	Removed	Possible Terrorism Financing	56,916.08	No Terrorism or TF found
6	Removed	Possible Proliferation Activities	322,816.00	No Terrorism or TF found
7	Removed	Possible Proliferation Activities	0.00	No Terrorism or TF found
Total			24,685,524.08	

2017

1	Removed	Possible Terrorism Financing	1,856,890.00	No Terrorism or TF found
Total			1,856,890.00	

2018

1	Removed	Possible Terrorism Financing	861,468.82	No Terrorism or TF found
4	Removed	Possible Terrorism Financing	45,722.30	No Terrorism or TF found
2	Total		907,191.12	

2020

1	Removed	Possible Terrorism Financing	0.00	No Terrorism or TF found
2	Removed	Possible Terrorism Financing	8,843,535.26	No Terrorism or TF found
Total			8,843,535.26	

2021

1	Removed	Possible Terrorism Financing	90,836.33	Under investigation
Total			90,836.33	

2022

1	Removed	Possible Terrorism Financing	0.00	No Terrorism or TF found
Total			0.00	

2023

1	Removed	Possible National Security Threat	0.00	No Terrorism or TF found
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2	Removed	Possible Terrorism Financing	0.00	No Terrorism or TF found
	Total		0.00	